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Section: 3

Making Friends Was Easy. Big Profit Is Tougher.

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SANTA MONICA, Calif. ALMOST on a lark, Chris DeWolfe bought the Internet address **MySpace.com** in 2002, figuring that it might be useful someday. At first, he used the site to peddle a motorized contraption, made in China and called an E-scooter, for $99.

Selling products online comes naturally to him. Having jumped into the Internet business in the early days, Mr. DeWolfe had become a master of the aggressive forms of online marketing, including e-mail messages and pop-up advertising. After the Internet bubble burst, he even built a site that let people download computer cursors in the form of waving flags; the trick was that they also downloaded software that would monitor their Internet movements and show them pop-up ads.

Very quickly, however, Mr. DeWolfe's tactics for MySpace changed. He had noticed the popularity of Friendster, a rapidly growing Web site that let people communicate with their friends and meet the friends of their friends. What would happen, he wondered, if he combined this type of social networking with the sort of personal expression enabled by other sites for creating Web pages or online journals?

He convinced the executives of eUniverse, the company that had bought his own marketing firm, ResponseBase, to back his plan. As soon as the site was reintroduced, in the summer of 2003, Mr. DeWolfe saw it grow quickly with little marketing. And although his scrappy backer was hungry for cash, he resisted pressure to flood MySpace with advertising and to turn all of its members into money.

"Chris came from ResponseBase, and they knew all the direct marketing tactics to get money out of almost anything," said Brett C. Brewer, the former president of eUniverse, which was later renamed Intermix Media. "But I give him credit: from literally the first or second month, he realized MySpace could be something we really need to protect because user confidence in the site was paramount."

Now MySpace has a new owner -- Rupert Murdoch's News Corporation, which bought MySpace and Intermix last year for $649 million -- and the pressure on Mr. DeWolfe to find a way to make much more money from MySpace is far greater.

But the opportunity is greater, too. More than 70 million members have signed up -- more than twice as many as MySpace had when Mr. Murdoch agreed to buy it -- drawn by a simple format that lets users build their own profile pages and link to the pages of their friends. It has tapped into three passions of young people: expressing themselves, interacting with friends and consuming popular culture.

MySpace now displays more pages each month than any other Web site except Yahoo. More pages, of course, means more room for ads. And, in theory, those ads can be narrowly focused on each member's personal passions, which they conveniently display on their profiles. As an added bonus for advertisers, the music, photos and video clips that members place on their profiles constitutes a real-time barometer of what is hot.

FOR now, MySpace is charging bargain-basement rates to attract enough advertisers for the nearly one billion pages it displays each day. The company will have revenue of about $200 million this year, estimated Richard Greenfield of Pali Capital, a brokerage firm in New York. That is less than one-twentieth of Yahoo's revenue.

In buying MySpace, Mr. Murdoch also bought a tantalizing problem: how to tame a vast sea of fickle and unruly teenagers and college students just enough to notice advertising or to buy things, yet not make the site so commercial that he scares off his audience. At the same time, he must address the real and growing concerns of parents and teachers who see MySpace as a den of youthful excess and, potentially, as a lure for sexual predators.

Mr. Murdoch's initial strategy seems to be to do nothing to interfere with whatever alchemy attracted so many young people to MySpace in the first place. So he has embraced Mr. DeWolfe, 40, and Tom Anderson, 30, the company's president and co-founder, and their close-knit management team. And he is providing them with the cash to reinforce MySpace's shaky computer system and to hire armies of sales representatives to bring in more money from the banner ads and sponsored pages that MySpace sells.

He also gave them multimillion-dollar bonus payments to smooth the feelings that were ruffled when Intermix was sold, dragging MySpace along with it against the will of its founders, who received only a small portion of the sale price.

Still, change is coming. In Beverly Hills, nine miles and worlds away from MySpace's beachside office, the News Corporation is assembling its overarching online unit, Fox Interactive Media. Run by Ross Levinsohn, the longtime manager of FoxSports.com, Fox Interactive Media is stitching together several Web properties into a big Internet company focused on youth. The top priority is MySpace.

"We have some very aggressive goals on how to build this thing into a real contributor to News Corp. financially," Mr. Levinsohn said last month. Mr. Murdoch, he added, "is focused on that, and he rightfully holds my feet to the fire."

To expand ad sales, especially to big brands, Mr. Levinsohn plans to supplement the MySpace staff with a second sales force linked to the Fox TV sales department. He wants to expand one of Mr. DeWolfe's advertising ideas -- turning advertisers into members of the MySpace community, with their own profiles, like the teenagers' -- so that the young people who often spend hours each day on MySpace can become "friends" with movies, cellphone companies and even deodorants. Young people can link to the profiles set up for these goods and services, as they would to real friends, and these commercial "friends" can even send them messages -- ads, really, but of a whole new kind.

Mr. Levinsohn is also developing plans for MySpace to be paid by some of the bands and video producers whose songs and short films are woven into its gaudy profiles like so many electronic stickers on a high-school locker. And he sees a chance for MySpace to rival eBay and Craigslist as a place where nearly anything is bought and sold.

Mr. Greenfield, the Pali Capital analyst, says that these moves have potential -- especially if

MySpace can convince members to put clips from Fox movies, television programs and other youth-oriented "content" on their profile pages. "I don't know how big a business this can be, but it can clearly be a lot bigger than it is today," he said. "The question is: Can you take it to the next level by making a business that leverages all the consumers who are telling you what they want to do?"

Another question is this: Can the News Corporation achieve these goals if the executives in charge don't agree on how to do so, or even on whether they want to? Mr. Levinsohn, for example, said he saw opportunity in the one million bands that have established profiles on MySpace; he said MySpace could charge bands to promote concerts or to sell their songs directly through the site.

In an interview the next day, however, Mr. DeWolfe dismissed the idea. "Music brings a lot of traffic into MySpace," he said, "and it lets us sell very large sponsorships to those brands that want to reach consumers who are interested in music. We never thought charging bands was a viable business model."

Mr. Levinsohn brushed aside the discord, saying it was appropriate for the people running MySpace to be more concerned at this point about serving users than making money. And, for now, Mr. DeWolfe and Mr. Anderson say they are happy working for the News Corporation and Mr. Murdoch, its 75-year-old chairman and chief executive. "Rupert Murdoch blew me away," Mr. DeWolfe said. "He really understands what youth is doing today."

BY many accounts, the MySpace culture reflects the style of Mr. DeWolfe, who has a hard-nosed business approach under a laid-back exterior. "Chris is a very strong personality," said Geoff Yang, a partner in Redpoint Ventures, which invested in MySpace last year as part of an effort to separate it from Intermix; the News Corporation's acquisition of Intermix thwarted that effort. "He will listen to a lot of ideas, make up his mind and be laser-focused to get a few of them done."

Mr. DeWolfe, who focuses on business affairs, and Mr. Anderson, who designs features for the site, have deliberately kept MySpace rudimentary, with an almost homemade feeling, to give the most flexibility to users. In spirit, the site reflects its Southern Californian home with all of its idiosyncratic performers, designers, demicelebrities and other cultural hustlers, many of whom the founders recruited to be early members. Mr. DeWolfe, in particular, is a fan of Los Angeles nightlife and has become something of a public figure himself.

"Chris has become this living persona of MySpace," said Mr. Brewer, who recalled a trip to Aspen, Colo., with Mr. Anderson and Mr. DeWolfe last December. "Chris is wearing an awesome leather jacket, some sort of designer shirt, with his hair all over the place. He has this whole rock-star persona. And you hear people going: 'Psst, psst. That's the MySpace guy.' "

When he is not basking in the MySpace spotlight himself, Mr. DeWolfe has begun using it to promote music events around the country. MySpace members can become "friends" with a profile for "MySpace Secret Shows," for instance, and they will receive tips about free concerts -- sponsored by companies like Tower Records -- in their hometowns.

On a recent Friday in Manhattan, several hundred people trekked through drizzling rain to the Tower Records store in the East Village for free tickets to a concert by Franz Ferdinand, the Scottish postpunk band, at the Hammerstein Ballroom.

Heather Candella, a college student from Sloatsburg, N.Y., was among those at the show. She said the shows were "a really good idea because it's kind of a secret kind of thing -- it's not so commercial."

She added that MySpace had become a main way to stay in touch with her friends. While she does not use the site to meet people, it has become part of the dating ritual. "When you meet someone, the question is not 'What's your number?' " she said. "It's 'What's your MySpace?' "

By checking out a guy's profile, she said, "you can actually get a feeling for who they are."

MySpace users pepper their profiles with their own photographs, musings and poetry, and with their favorite music and video clips. That maximizes the individuality of each profile but turns the typical media-company business model upside down, which is one reason that it is so hard for the News Corporation to use the audience to sell ads or to promote its own programming. The best way to get, say, a television show in front of the MySpace audience is not to cut a deal with a programming czar at a Hollywood restaurant, but to win the hearts, one by one, of thousands of members who will display the show to all of their friends.

"We can't look at this as a media property," said Peter Chernin, the News Corporation's president. "This is a site programmed by its users."

For that reason, MySpace is only gingerly pushing users into other Fox properties. Right now, Fox's relationship to MySpace is not explicit, although Fox movies and television shows are frequent advertisers. Ultimately, the News Corporation will make it easy for MySpace members to put clips from its television programs and trailers for its movies on their profile pages. But there will be nothing to stop them from using material from other companies.

Mr. Levinsohn calls MySpace the antiportal. "It's not about a central hub, because that's not where things are going," he said. "The under-30 set wants choice. It's not about one destination; it's about 65 million."

Indeed, rather than squeeze all its Internet ambitions into MySpace, Fox Interactive is assembling a network of Web sites, including IGN, a collection of sites focused on video games, and Scout, which runs Web sites for about 200 local sports teams. The News Corporation is also developing a portal devoted to entertainment, drawing from its Fox network programs, the Page Six gossip column of The New York Post and show-business reporters at the 35 local television stations it owns, Mr. Levinsohn said.

AT MySpace, the first challenge is to raise advertising rates. Because its supply of pages so greatly outstrips demand from advertisers, it has offered deep discounts. Indeed, the average rate paid for advertising is a bit over a dime for 1,000 impressions, Mr. Levinsohn said, far lower than rates at major competitors. "If we can raise that by 10 cents, think of the upside," he said.

One way to coax more money from advertisers is to build special sections -- areas devoted to music and independent filmmakers -- that provide a neutral home to advertisers that want MySpace's youthful audience but don't want their ads associated with the risque content of some members' profiles.

A sign of that challenge is seen in Mr. Levinsohn's effort to expand the use of text ads -- the rapidly growing format pioneered by search engines. He has been running tests with Yahoo, Google and several smaller ad providers and has sought proposals from them for longer-term deals.

The answer he received was a shock. Not one of them, not even the mighty Google, was sure that it could provide enough advertisements to fill all the pages that MySpace displays each day, Mr. Levinsohn said. The search companies did not want to dilute their networks with so many ads for MySpace users, whom they said were not the best prospects for most marketing because they use MySpace for socializing, not buying.

Mr. Levinsohn says he also hopes to raise ad rates by collecting more user data so advertisers can find the most promising prospects. To use the site, people need to provide their age, location and sex, and often volunteer their sexual orientation and personal interests. Some of that information is already being used to select ads to display. Soon, the site will track when users visit profile pages and other sections devoted to topics of interest to advertisers. People who put information about sports cars in their profiles or who frequent MySpace message boards about hot-rodding, for example, would be shown ads for car parts, even while reading messages from friends.

The bigger opportunity, however, is not so much selling banner ads, but finding ways to integrate advertisers into the site's web of relationships. Wendy's Old Fashioned Hamburgers, for example, created a profile for the animated square hamburger character from its television campaign. About 100,000 people signed up to be "friends" with the square.

Fox officials wonder whether this sort of commerce, built on relationships, can be extended to small businesses. A Ford dealership in, say, Indiana could create a profile, said Mark A. Jung, the chief operating officer of Fox Interactive. The profiles themselves, he said, would probably be free, but MySpace would sell enhancements to help businesses attract customers and complete transactions, Mr. Jung said.

Yet here is another place that executives at Fox and MySpace don't see eye to eye. Mr. DeWolfe discounted the idea of people creating profile pages for small businesses. "If it was a really commercial profile -- the gas station down the street -- no one is going to sign up to be one of their friends," he said. "There is nothing interesting about it."

For now, Mr. DeWolfe said, he has more down-to-earth plans. With the News Corporation's help, he is opening an office in London to coordinate MySpace's expansion in Europe. He is cutting deals to let members connect to MySpace over cellphones.

The News Corporation, he said, is helping MySpace achieve his goals sooner than it could on its own. So far this year, MySpace has spent $20 million of the News Corporation's money, in part to nearly double its staff of 250. About one-third of its employees focus on customer service and, increasingly, on responding to parents' concerns about what teenagers do on the site and what else they can see there. In the last six months, there has been a torrent of letters from schools to parents -- as well as newspaper articles -- about the glorification of drinking, drug use and sex on many MySpace profiles.

MySpace has long had rules that forbid anyone under 14 to join and that ban pornographic images and hate speech. Beyond those, however, the site is very open to frank discussion, provocative images and links to all sorts of activities. It didn't stop Playboy magazine, for example, from creating a profile page on its site to recruit members to pose in the magazine. Nor does it object to Jenna Jameson, the pornographic film star, maintaining a profile with links to her hard-core Web site.

Ms. Jameson "is more than a porn star," Mr. Anderson said. "She is an author and a celebrity and has been on Oprah." He added that "if we had a site that was 'My name is so-and-so and this is my porn site,' we would delete that."

Mr. Levinsohn, Mr. DeWolfe and others at the News Corporation say the site has no more or fewer problems than any other community on the Internet, and their primary response to parents' concern is a campaign to educate users about safe surfing techniques. "There are a couple of basic safety tips that can make MySpace safe for anyone over 14," Mr. DeWolfe said. "Just like you tell kids not to get in the car with strangers and to look both ways before you cross the street."

A sign that MySpace can play a role in some of the most distressing experiences of growing up came last week, when five teenage boys were arrested in Riverton, Kan. Law enforcement and school officials there said that the group planned to go on a shooting spree at their high school but were stopped after one of them discussed the plot on MySpace.

IN some ways, MySpace has assumed the role America Online held a decade ago when it introduced e-mail services and Internet chat to the masses. But AOL's example is a cautionary one. For many reasons, largely its failure to keep up with trends, AOL lost its place in the social lives of young people.

Mr. DeWolfe argues that MySpace won't suffer that fate because, in just two years, it has already become so entrenched in so many lives. "People are truly invested in the site," he said. "All their friends are on it. They spent months building their profiles. And so the cost of switching is too high. If we keep building the features they want, they will stay on the site."

If he is right, MySpace will be more than just a trendy toy to be discarded like last year's E-scooter.

Photos: Chris DeWolfe, left, and Tom Anderson of MySpace.com credit the site's owner, Rupert Murdoch, inset, with understanding today's younger generation. (Photo by Monica Almeida/The New York Times)(pg. 1); Ross Levinsohn, president of Fox Interactive Media, says he wants advertisers to have their own MySpace profiles, just like the teenagers'. (Photo by Steve Goldstein for The New York Times)(pg. 8); Heather Candella, center, and Sabine McDonald, waited for free tickets to a concert by Franz Ferdinand that was sponsored by MySpace. (Photo by Hiroko Masuike for The New York Times)(pg. 10)

Chart: "Piling Up the Pages"
Total pages viewed on MySpace quintupled in the last year. It is now the second-most-viewed Web site.

TOP 5 WEB SITES
Yahoo
MySpace
MSN-Microsoft
Time Warner Network

EBay

Yahoo
PAGES VIEWED IN BILLIONS
MARCH 2005: 32.5
MARCH 2006: 32.9

MySpace
PAGES VIEWED IN BILLIONS
MARCH 2005: 5.3
MARCH 2006: 28.8

MSN-Microsoft
PAGES VIEWED IN BILLIONS

MARCH 2005: 21.5
MARCH 2006: 20.3

Time Warner Network
PAGES VIEWED IN BILLIONS
MARCH 2005: 26.6
MARCH 2006: 18.5

EBay
PAGES VIEWED IN BILLIONS
MARCH 2005: 12.8
MARCH 2006: 11.7

(Source by comScore Media Metrix)(pg. 10)

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